

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-03
INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03
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R 131712Z JAN 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 4368
INFO AMCONSUL OPORTO POUCH

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E.O. 11652: N/A
TAGS: EINV, PO
SUBJECT: AMERICAN INVESTMENT PROBLEMS

1. FOLLOWING IS UPDATE ON MAJOR INVESTMENT DISPUTES INVOLVING U.S. FIRMS IN PORTUGAL. PROGRESS HAS BEEN MADE ON SEVERAL CASES OVER PAST FEW MONTHS, PARTICULARLY THOSE OF ITT AND MUNDET. FIRMLY COMMITTED TO ATTRACTING NEW FOREIGN INVESTMENT, GOP APPARENTLY HAS CONCLUDED THAT RESOLUTION OF REMAINING DISPUTES IS ESSENTIAL TO FULFILLING THIS OBJECTIVE. RESOLVING THESE PROBLEMS IS, HOWEVER, STILL A DIFFICULT, COMPLICATED PROCESS.

2. ITT-GOP AND ITT NEGOTIATED FRAMEWORK AGREEMENT IN MAY 1977 FOR CASE-BY-CASE RESOLUTION OF PROBLEMS AFFECTING ITT PORTUGUESE SUBSIDIARIES (77 LISBON 4043). NEGOTIATIONS APPEAR TO BE PROCEEDING SMOOTHLY, WITH GOP CLEARLY INDICATING ITS DESIRE FOR AN AMICABLE SOLUTION. DETAILS CONTAINED IN LISBON 0140.

3. MUNDET & CIA: FIRM IS A LARGE PORTUGUESE CORK MANUFACTURER CONTROLLED BY U.S. CITIZEN PAULA MUNDET. IN 1975
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GOP INTERVENED IN THE FIRM. WORKER'S COMMISSION SUBSEQUENTLY REMOVED MRS MUNDET FROM MANAGEMENT. IN SEPTEMBER 1977, GOP DECIDED TO END INTERVENTION IN THE COMPANY (77 LISBON 7844). IN DECEMBER WORKERS AT ONE PLANT VOTED TO ALLOW RETURN OF FORMER MANAGEMENT, AND MRS MUNDET IS ONCE AGAIN IN PARTIAL CONTROL. FIRM IS REPORTED TO BE IN PRECARIOUS FINANCIAL CONDITION.

4. LUNDBERG, LDAM: FIRM, INCORPORATED IN PORTUGAL AS CONSULTANT ON TECHNOLOGY FOR CELLULOSE INDUSTRY, IS 50 PERCENT OWNED BY A.H. LUNDBERG, INC., MERCER ISLAND, WASHINGTON. WORKERS COMMISSION TOOK OVER THE FIRM IN MARCH 1975 AND GOP INTERVENED IN SEPTEMBER 1975. GOP NOW STUDYING DISINTERVENTION OF THE FIRM. LOCAL LAWYER INFORMS US THAT MINISTRY OF INDUSTRY IS DRAFTING ITS DECISION AUTHORIZING RETURN OF FIRM TO ORIGINAL OWNERS. COMPANY REPORTEDLY BURDENED WITH SERIOUS DEBTS.

5. FORTIS-OTIS ELEVATOR: THE U.S.-OWNED PORTUGUESE SUBSIDIARY WAS TAKEN OVER BY WORKERS COMMISSION IN MAY 1975, AT WHICH TIME MANAGEMENT DEPARTED PORTUGAL. OTIS RESUMED CONTACTS WITH GOP IN MARCH 1976 TO EXPLORE POSSIBILITY OF A SOLUTION. THESE SPORADIC INTERCHANGES HAVE PRODUCED NO RESULTS. GOP REPORTEDLY WANTS TO MERGE OTIS SUBSIDIARY WITH COMPORTEL, A PORTUGUESE ELEVATOR MANUFACTURER WHICH IS IN FINANCIAL DIFFICULTY (76 LISBON 2365). MINISTRY OF INDUSTRY HAS NO RECENT INFORMATION ON THE CASE.

6. APPLIED MAGNETICS: PLANT EMPLOYED 600 NEAR LISBON IN ASSEMBLY OF ELECTRONIC COMPONENTS. FOLLOWING LABOR DIFFICULTIES, MANAGEMENT DEPARTED PORTUGAL IN SUMMER 1974 AND COMPANY WAS DISSOLVED. U.S. PARENT (AM) HAS PROPOSED TO RESOLVE RESIDUAL FINANCIAL DISPUTE WITH GOP BY USING LIMITED OFFICIAL USE

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ITS UNCOLLECTED TAX REBATES TO CANCEL MOST OF THE COMPANY'S OUTSTANDING DEBT TO ESPIRITO SANTO BANK. EMBASSY RECENTLY REQUESTED GOP LOOK INTO MATTER IN EFFORT TO FIND AMICABLE SOLUTION (FERRER/SMITH LETTER DECEMBER 20, 1977). PRESIDENT OF FOREIGN INVESTMENT INSTITUTE INFORMED EMBASSY ON JAN 11 THAT ESPIRITO SANTO BANK NOW WILLING TO PROCEED WITH SOLUTION ALONG LINES OF ABOVE PROPOSAL. IT STATES, HOWEVER, THAT TAX REBATE WILL BE SOME \$40,000, RATHER THAN \$20,000 AS SUGGESTED BY AM, LESS THAN DEBT TO THE BANK. EMBASSY WILL RAISE THE MATTER WITH MINISTRY OF FINANCE AS SOON AS NEW GOVERNMENT FORMED.

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7. STELBER PORTUGUESA: FIRM, A WHOLLY-OWNED SUBSIDIARY OF STELBER INDUSTRIES, NEW YORK, MANUFACTURED BICYCLES AND OTHER SPORTING EQUIPMENT. IT EXPERIENCED SERIOUS LABOR PROBLEMS IN 1975 AND 1976, AND FINALLY STOPPED OPERATION IN MARCH 1977. HAVING BEEN DECLARED BANKRUPT IN JULY 1977, IT CURRENTLY IN PROGRESS OF LIQUIDATION (77 LISBON 3306). ITS LIABILITIES REPORTEDLY ARE SOME \$5 MILLION.

8. SOCOTIL/FRIEMANIT: SOCOTIL IS BELGIAN-OWNED MANUFACTURER OF CHILDREN'S CLOTHING. EMBASSY INTEREST IN CASE GENERATED BY FRIEMANIT, A NEW YORK-BASED FIRM WHICH HAD PURCHASED BULK OF SOCOTIL PRODUCTION (OVER \$1 MILLION ANNUALLY). SOCOTIL VIRTUALLY CEASED PRODUCTION IN JULY 1976. FRIEMANIT ATTEMPTING ASSIST BELGIAN OWNER TO REGAIN CONTROL OF FIRM AND RESUME PRODUCTION FOR U.S. MARKET. FRIEMANIT HAS INCURRED CONSIDERABLE DEBT TO SOCOTIL, BUT IS DEFERRING DISCUSSION OF PAYMENT UNTIL FIRM RETURNED TO BELGIAN OWNER. GOP REPORTEDLY AWAITING FOR BELGIAN OWNER TO SUBMIT VIABILITY CONTRACT PROPOSAL WHICH WOULD ENABLE SOCOTIL TO CONSOLIDATE ITS FINANCIAL POSITION.
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